

DISASTER LOSSES



HELP FROM THE IRS

If you have had property damaged or lost *in an area the President of the United States has declared eligible for federal disaster assistance*, the enclosed information is for you. This brochure highlights federal tax issues that apply to both individuals and businesses.

The good news is – right now, you may be able to get a tax refund, due to your unreimbursed loss, from the Internal Revenue Service.

What is a casualty loss for tax purposes?

When property is damaged or lost in a hurricane, earthquake, fire, flood, or similar event that is sudden, unexpected, or unusual, it is called a casualty.

Your unreimbursed loss from a casualty may be deductible on your tax return for the year the casualty occurred. If the loss happened in an area the President designated a disaster area, you may not have to wait until the end of the year to file a tax return and claim the loss. You may be able to file an amended return for last year right now and get a refund of taxes you have already paid.

Where do I start when I have a casualty loss?

First, you need to know how much your casualty loss actually is. This can be difficult, but it is worth the effort. In general, you make a list of your damaged, lost, or destroyed property. For each item, you need to know its adjusted basis and the decrease in its value due to the casualty. Normally, your casualty loss is the smaller of these amounts. For business property completely destroyed, use its adjusted basis as your casualty loss.

IRS publications and forms listed in this brochure can give you step-by-step instructions on how to figure your loss.

How will insurance affect my loss?

When figuring your casualty loss, reduce the loss by any insurance reimbursement you receive or expect to receive. If you had insurance at the time of the casualty, but did not file a claim, you can deduct only the amount of the loss that the insurance would not have covered. If the insurance company pays you more than your adjusted basis, you will have a gain from the casualty. Usually, that gain is taxable for the year that you receive it. However, some special rules apply if you buy property within a specified period to replace what you lost.

For instance, if you held property for use in a trade or business or for investment, and it was damaged or destroyed due to a Presidentially declared disaster, **any** tangible replacement property held for use, in a trade or business, is treated as *similar or related in service or use* to the property that was damaged or destroyed when figuring the gain, if any, on reimbursement. This change is effective for disasters declared after December 31, 1994.

My casualty losses are greater than my insurance coverage. Is there any tax relief available to me?

You may be able to get a tax refund by filing an amended return right now. It works like this:

If your loss was in an area the President declared a disaster area, you may choose to claim (deduct) the loss on your last year's tax return by filing an "amended" return. The tax you paid last year may be reduced because of your loss. By filing an amended return, you may qualify for a refund now rather than waiting until you file your return for this year.

Where can I get copies of my financial records and other important documents that were lost or destroyed as a result of a casualty?

Fortunately, you can get copies of many important records. For example, contact your bank for bank statements; the county clerk for real estate records; and your tax preparer or the IRS for copies of federal tax returns.

To get a copy or transcript of your prior years' Forms 1040, 1040A, or 1040EZ, send a completed Form 4506, *Request for Copy or Transcript of Tax Form*, to the IRS address where you filed your tax return. If your loss is in a declared disaster area, print the words "DISASTER LOSS" on the top of Form 4506. This will speed your request, and you won't have to pay for it.

Where can I get more information on casualty losses?

Start with Publication 910, *Guide to Free Tax Services*. This publication has information about most IRS tax services, print materials, and programs available year-round for you.

Other forms and publications that you may need include:

Form 1040X - *Amended U.S. Individual Income Tax Return, and Instructions*

Form 1120X - *Amended U.S. Corporation Income Tax Return*

Form 4506 - *Request for Copy or Transcript of Tax Form*

Form 4684 - *Casualties and Thefts*

Pub 536 - *Net Operating Losses*

Pub 544 - *Sales and Other Dispositions of Assets*

Pub 547 - *Casualties, Disasters, and Thefts (Business and Non-Business)*

Pub 583 - *Starting a Business and Keeping Records*

Pub 584 - *Nonbusiness Disaster, Casualty, and Theft Loss Workbook*

Pub 584SP - *Registro de Perdidas Personales Causadas por Hechos Fortuitos (Imprevistos) o Robos*

You may download and print forms and publications from the Internet <http://www.irs.ustreas.gov> or, call **1-800-829-3676** to order a free copy.

From a personal computer, download and print federal tax forms with instructions, tax publications, and other tax information materials.

Internet:

World Wide Web -

<http://www.irs.ustreas.gov>

FTP: <ftp.irs.ustreas.gov>

Telnet: <iris.irs.ustreas.gov>

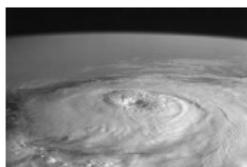
Modem:

(703) 321-8020

Another way to acquire tax forms and publications is by ordering the Federal Tax Forms CD-ROM through the Government Printing Office's Superintendent of Documents at (202) 512-1800. This CD includes over 600 current year and prior year tax forms with instructions and tax publications.

From a fax machine, dial **(703) 487-4160** and get a listing of IRS tax forms. Follow the voice prompts to get forms faxed back to you.

If you have access to teletypewriter/telecommunications device for the deaf (TTY/TDD) equipment, you can call **1-800-829-4059** to ask questions or to order forms and publications. See your income tax package for the hours of operation.



Many times, your tax questions can be answered by reading tax publications and related forms. But when you need more information, you may call the IRS at **1-800-829-1040** for assistance.



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